

AR30

*Take:
Please do
corporate report. J*

83
[Signature]

SUPERTEST PETROLEUM CORPORATION, LIMITED

1965
ANNUAL
REPORT



**CANADA'S
ALL
CANADIAN
COMPANY**

1965



This service centre, which is the largest on the Macdonald-Cartier Freeway, was opened at Tilbury in the early summer. Its operation has exceeded our expectations.



SUPERTEST PETROLEUM CORPORATION, LIMITED

Canada's All Canadian Company

DIRECTORS

S. C. BACON
R. G. IVEY, Q.C., LL.D.
F. W. P. JONES
J. D. JUDGE
W. H. McPHILLIPS, M.B.E.
R. W. MITCHELL, M.B.E., Q.C.
F. J. MOORE
F. L. NORWOOD, F.C.A.
M. M. RILEY
A. S. THOMPSON
JAMES G. THOMPSON
J. G. THOMPSON
D. G. WALLACE
LIEUT.-COL. D. B. WELDON, M.C.

OFFICERS

J. G. THOMPSON *Chairman of the Board*
JAMES G. THOMPSON *President*
S. C. BACON *Vice-President & General Manager*
R. W. MITCHELL *Vice-President & Secretary*
F. J. MOORE *Vice-President*
M. M. RILEY *Vice-President*
F. L. NORWOOD *Treasurer*

Manager

R. K. DAVIDSON *Ontario West*
C. J. ENGEL *Ontario East*
J. J. LEHMAN *Quebec Division*
S. W. MANLEY *Agencies*

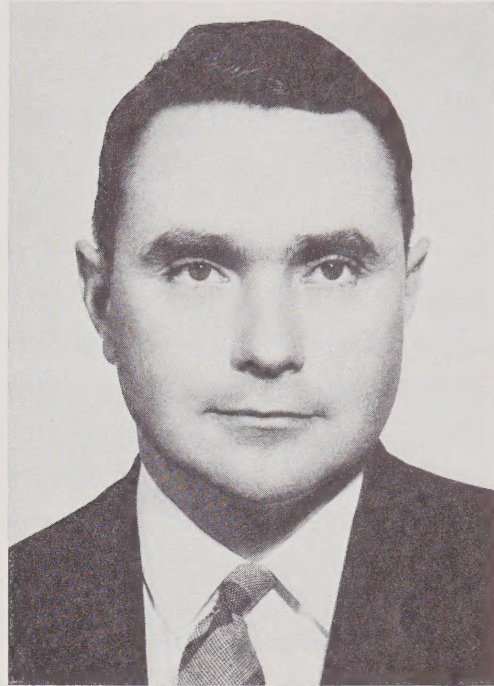
Sales Region

Exploration & Production

Supertest Investments & Petroleum Limited

A. W. FARMILO *General Manager, Calgary*

1965



JAMES G. THOMPSON
President

To the Shareholders:

On behalf of your Board of Directors I am privileged to submit this report of the activities of your Company for 1965. Included herein are the accounts for the year ended December 31, together with your auditors' report thereon.

It will be noted that a number of changes have been made in the presentation of the Consolidated Balance Sheet. These revisions were made in order to conform more closely with contemporary Balance Sheets being employed by industry in Canada. No changes, however, have been made in accounting procedures, which remain the same as those employed heretofore, except as explained in the notes to the financial statements.

Earnings from operations, at \$5,139,111, showed a nominal improvement over the previous year, and net earnings for the year carried to Surplus are \$1,767,207. As will be noted in the Consolidated Statement of Earnings, the improved result stems

largely from a lower provision for Income Taxes, attributable to drilling operations in Western Canada. While this circumstance is most welcome, there is no assurance that the provisions for Income Tax in 1965 represent a pattern which will be repeated in future years.

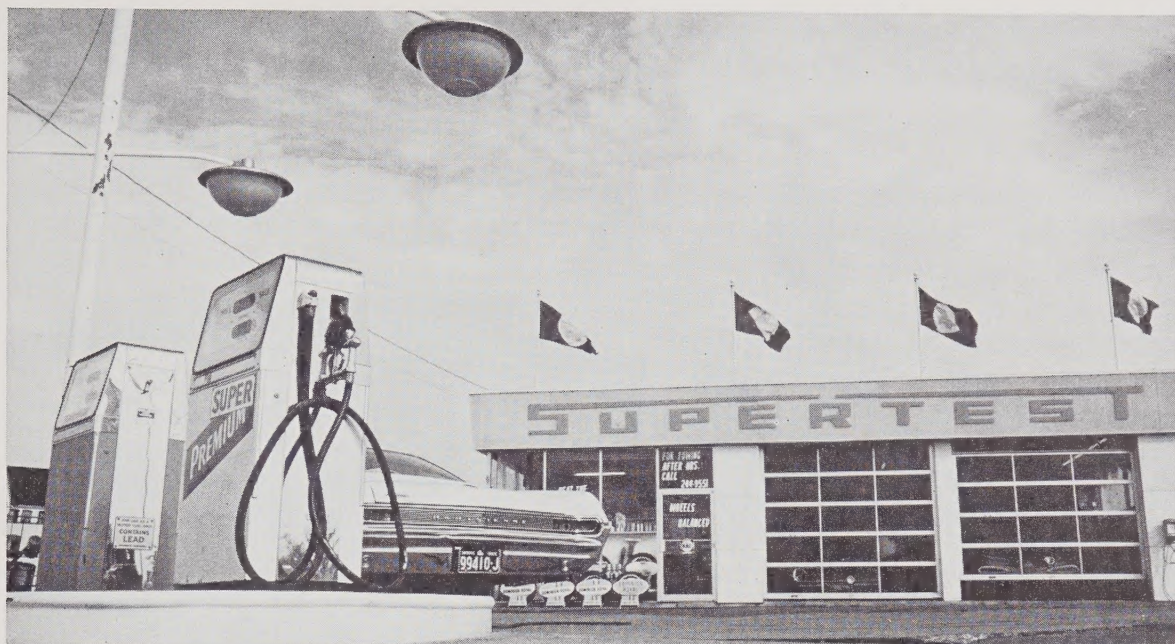
Gratifying as it is to report improved earnings, it is difficult indeed to take comfort from the position in which your Company is placed as a substantial marketer of petroleum products. In recent years we have pointed out on several occasions that the selling price of petroleum products has not kept pace with that of other commodities. Steeply rising costs of all kinds have been attendant to the petroleum business, as well as other enterprises, in the post-war period. In the face of these costs it seems incomprehensible that our dealer tank wagon price (the price we receive for a gallon of regular grade gasoline in our home city) at twenty-two cents per gallon, exclusive of fuel taxes, remains lower than the price prevailing in 1950 — sixteen years ago.

A year ago reference was made to the National Oil Policy, the implementation of which, while contributing to the recent more stable market, has not, however, entirely removed the pressure of imports from Iron Curtain or other Overseas countries.

In general, 1965 was an active year in which further realignments of organization and responsibilities were accomplished, a major service station building programme undertaken, and activity in the search for oil and gas was maintained at a high level.

The service centre under construction a year ago on the Macdonald-Cartier Freeway at Tilbury was completed and commenced operation in the early summer. The enthusiastic reception of this major facility during its early months of operation has exceeded our expectations, and SUPERTTEST is looking forward to serving the motoring public at this location in the years ahead.

The major programme of building, replacing and renovating service stations referred to above, is the largest such programme yet undertaken by SUPERTTEST, and is designed particularly to provide expanded facilities in growing market areas. Again, a number of obsolete properties were sold during the year, and in accordance with your Company's policy these have been replaced with new properties. By the year-end a substantial number of service stations had been built or were under construction at the new locations. The efficiency and appearance of many existing service stations were



The largest building programme undertaken by SUPERTEST included this service centre situated on the Malton Road near the Toronto International Airport.

improved by providing additional space in buildings, introducing modern outdoor lighting, up-dating the appearance of buildings, and in some cases a complete rebuilding and re-equipping of the location was undertaken.

Throughout this programme SUPERTEST has built attractive, modern buildings in keeping with the type of business available and the neighbourhood being served, while maintaining a strong corporate identity. Public reception of these new facilities has been encouraging and growing numbers of motorists continue to become customers in order to take advantage of the high quality products and service for which SUPERTEST is renowned.

In addition to the building programme, a number of changes were made in your Company's marketing organization, particularly within the sales function, in order to provide more efficient service and to establish a more direct contact with dealers and customers.

Drilling activities in Western Canada proceeded in several areas of interest. Results have been encouraging, which will, however, require follow-up drilling in the



Public reception of stations, such as this one, has been most encouraging. The station shown above is at 7700 Roi René, Ville d'Anjou in the Province of Québec.

current year. SUPERTEST participated to varying degrees in the drilling of 15 successful oil wells, as compared to 12 wells in the previous year. With pipelines already operating in the discovery areas, additional deliveries of crude oil should begin in the near future.

In partnership with others, SUPERTEST purchased a small lease block in the intriguing Rainbow area of northern Alberta where a well, drilling at the year-end, has subsequently proved to be a modest gas well and as such will be capped until a contract for gas from this area is negotiated and the necessary pipelines have been constructed.

As a result of the new Alberta prorationing regulations recently introduced, a re-assessment was made of our producing properties which resulted in some further development drilling being undertaken on leases in the Pembina area.

Deliveries of natural gas to Trans-Canada from the Edson area began on schedule in November. Contracts were also signed for delivery of gas to Trans-Canada from your Company's holdings at Lac La Biche, which forms part of the Marten Hills gas contract area. To properly service this contract, additional drilling will be required prior to commencement of deliveries in 1968.

Petroleum reserves, after depletion for the year, were again increased. Land holdings were maintained in good standing and additional acreage was acquired in other prospective areas of interest.

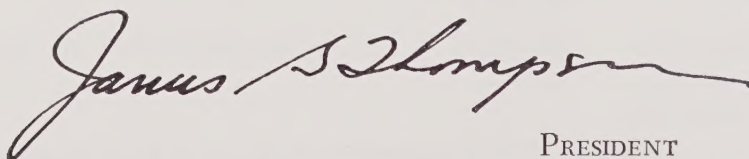
It will be recalled that in the last Annual Report reference was made to the economies which were being effected in our marketing operations and which had resulted in substantial savings in operating costs. This trend had been in effect for three or four years and much has been accomplished. However, as shareholders will be aware, pressure from labour in Canada has been very strong, as evidenced by the settlement of the wage dispute in British Columbia engineered by the Government of that Province last November between the Oil, Chemical and Atomic Workers' International Union and the Oil Industry. The implications of this settlement have now been reflected in large measure throughout most of Canada, and include your own Company, although we do not operate refineries. Settlements which have been made are drastic and, without the support of refinery profits, are bound to bear on your Company in the period ahead.

In keeping with the brisk economic activity of Canada, it is our hope that 1966 will be a year of further progress for SUPERTEST, with drilling activities being maintained at a good level, together with a continuation of the service station building and modernization programme of the past year. The prosperity presently being enjoyed in the Canadian economy should provide for continued growth in business opportunity in the current year. However, it appears that productivity is not altogether keeping pace with rapidly rising costs, so that satisfactory earnings, which provide capital for business expansion and the creation of new job opportunities, may only be possible through increased selling prices.

During the year, Mr. F. W. P. Jones was elected to the Board of Directors and we look forward to the benefit of his counsel and wide business experience in the years ahead.

To all employees, dealers and agents of SUPERTEST I express on behalf of your Board of Directors appreciation of the loyalty and hard work which made possible the successes which they and your Company have enjoyed in 1965.

On behalf of the Board,

A handwritten signature in dark ink, reading "James S. Thompson". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

PRESIDENT

April, 1966

SUPERTEST PETROLEUM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Assets

Current Assets

Cash	\$ 3,792,090	
Government of Canada bonds, at cost (quoted market — \$45,483)	44,160	
Accounts receivable	6,026,274	
Inventories of products and merchandise at the lower of cost or replacement cost	1,024,481	
Prepaid expenses and supplies	204,515	\$11,091,520
	<hr/>	

Refundable Deposits with Governments		200,169
--	--	---------

Investments

Mortgages and loans receivable	2,572,897	
Investments, at cost	769,862	3,342,759
	<hr/>	

Property, Plant and Equipment, at cost (Note 1)	42,213,802	
Less — Provision for depreciation, depletion and obsolescence	20,132,439	22,081,363
	<hr/>	

Other

Deferred charges	257,783	
Commission on preference shares	70,020	
Goodwill	400,000	727,803
	<hr/>	
		<hr/>
		\$37,443,614
		<hr/>

The accompanying notes are an integral part of this statement
and should be read in conjunction therewith.



CORPORATION, LIMITED Y COMPANIES

AS AT DECEMBER 31, 1965

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	\$ 8,022,183	
Sales and motor fuel taxes payable	1,301,080	
Dividends payable	229,234	
Income taxes payable	777,194	\$10,329,691

Long-Term Debt

Mortgages payable	185,835
-------------------------	---------

Reserve for Contingencies	265,000
---------------------------------	---------

Minority Interest	29,800
-------------------------	--------

Shareholders' Equity

Capital Stock

Preference shares having a par value of \$100 each of which
20,005 shares are 5% cumulative redeemable sinking fund
preference shares (Note 2)

Authorized	32,005 shares	
Issued	20,005 shares	2,000,500

Ordinary non-voting shares of no par value

Authorized	1,375,000 shares	
Issued	688,780 shares	5,079,750

Common voting shares of no par value

Authorized	2,500,000 shares	
Issued	1,250,000 shares	25,000

EARNINGS RETAINED AND USED IN THE BUSINESS	19,528,038	26,633,288
--	------------	------------

\$37,443,614

APPROVED ON BEHALF OF THE BOARD.

JAMES G. THOMPSON, *Director*

FRED L. NORWOOD, *Director*

S U P E R T E S T P E T R O L E U M A N D S U B S I D I A

Notes to Consolidated Financial Statements *December 31st, 1965*

1. POLICIES GOVERNING DEPRECIATION AND DEPLETION

Producing properties

The company follows the practice of charging exploration expenses and the carrying costs applicable to non-producing properties to income as incurred. Property acquisition costs are capitalized and charged to income if the property is subsequently surrendered. The costs of productive wells are capitalized and the costs of non-productive wells are charged to income when the wells are determined to be dry. The cost of producing properties and producing development costs are amortized on a unit of production method based upon estimated recoverable reserves of oil and gas as determined by company engineers.

Prior to 1965 producing properties were carried net of depletion. In 1965 these properties were adjusted by approximately \$2,300,000 to reflect original cost. Accumulated depletion in the same amount has been added to the provision for depreciation, obsolescence and depletion.

Other plant and equipment

Depreciation of physical assets is charged to earnings at rates allowed by the Income Tax Act which are considered adequate to extinguish the cost at the end of their estimated useful life.

2. The 5% cumulative redeemable sinking fund preference shares are callable at \$103 each except when redeemed for sinking fund purposes when the price is \$100 per share.
3. The company paid \$7,000 in directors' fees during the year.

C O R P O R A T I O N , L I M I T E D

Y C O M P A N I E S

Consolidated Statement of Earnings

For the year ended December 31, 1965

(with comparative figures for the preceding year)

	1965	1964
Earnings From Operations		
Before Undernoted Charges	<u>\$ 5,139,111</u>	<u>\$ 5,120,903</u>
DEDUCT		
Provision for depreciation and depletion	2,023,289	1,995,523
Provision for taxes on income	1,228,849	1,634,887
Minority interest	1,540	1,590
	<u>3,253,678</u>	<u>3,632,000</u>
NET EARNINGS	1,885,433	1,488,903
GOODWILL, TRADEMARKS AND		
ORGANIZATION EXPENSES WRITTEN OFF	<u>118,226</u>	<u> </u>
TRANSFERRED TO EARNINGS RETAINED		
AND USED IN THE BUSINESS	<u>\$ 1,767,207</u>	<u>\$ 1,488,903</u>

Consolidated Statement of Earnings retained and used in the business

for the year ended December 31, 1965

Balance as at December 31, 1964		\$15,597,638
ADD		
Net earnings for the year	\$ 1,767,207	
Capital gain on disposals (including expropriations)	2,222,552	
Reserve for inventory valuation no longer required	347,989	
Tax paid undistributed income	100,012	4,437,760
		<u>20,035,398</u>
DEDUCT		
Dividends declared		
Preference shares	100,470	
Ordinary and common shares	406,890	507,360
Balance as at December 31, 1965		<u>\$19,528,038</u>

The accompanying notes are an integral part of these statements
and should be read in conjunction therewith.

Auditors' Report

TO THE SHAREHOLDERS

SUPERTEST PETROLEUM CORPORATION, LIMITED

We have examined the accompanying consolidated financial statements of Supertest Petroleum Corporation, Limited and subsidiary companies for the year ended December 31, 1965 comprising the consolidated balance sheet as at that date and the consolidated statements of earnings and earnings retained and used in the business for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned consolidated financial statements present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON

Chartered Accountants

London, Ontario.

March 4, 1966.



The service station building programme will be continued in 1966. Above is an artist's impression of the proposed station at Elgin Street and Argyle Avenue, Ottawa.

